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HSBC India Services PMI

Activity and new business rose sharply in February, leading to further job growth.

Key findings:

- Service sector activity and new work both expanded at accelerated rates.
- Employment growth remained moderate.
- Price pressures cooled since January.

The headline seasonally adjusted HSBC Business Activity Index climbed for the third month running in February, hitting its highest level since September 2008 and signalling sharp growth of Indian service sector output. Moreover, the latest figure (60.9) was broadly on a par with the pre-downturn series trend. All six monitored sub-sectors registered increased output since January, with Hotels & Restaurants recording the fastest expansion.

Underpinning total activity growth during the second month of 2010 was a faster rise in new business. New work received by Indian service firms increased at a considerable pace that was the most pronounced for seventeen months. Anecdotal evidence suggested that improving economic and financial climates had prompted companies to extend their service ranges and engage in promotional activities. Reports also indicated that strong company reputations had played a part in supporting demand. Data showed that Hotels & Restaurants and Postage & Telecommunications were the best performers on the month.

Unfinished work at Indian service providers accumulated for the tenth straight month in February as workloads increased. However, the pace of growth was only slight and far weaker than the pre-crisis trend, reflecting some firms' efforts to clear backlogs. Sector data revealed that outstanding business fell in Postage & Telecommunications and 'Other' Services.

Job creation persisted at a moderate pace during the latest

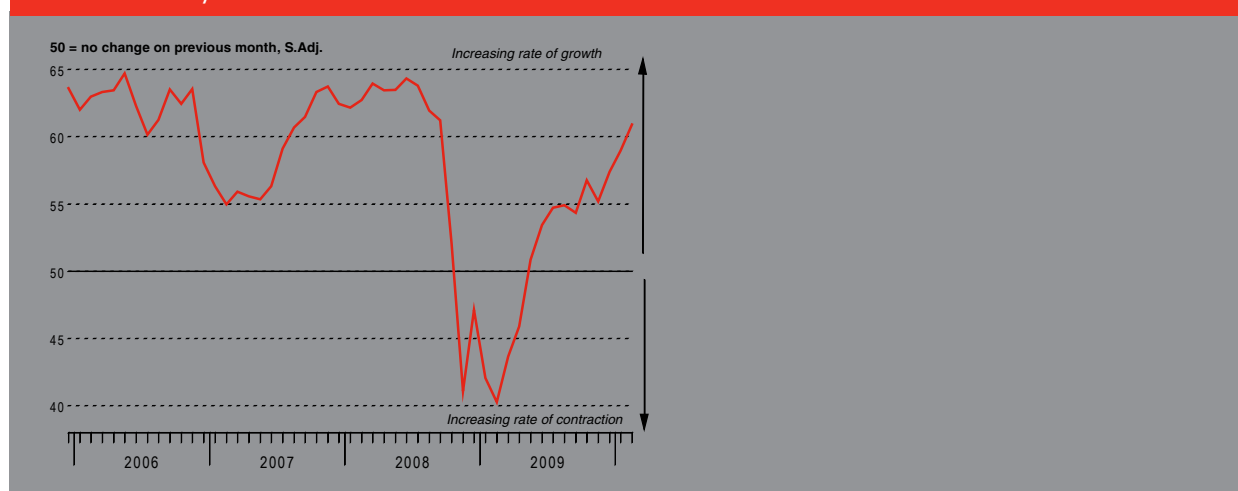
survey period. Companies stated that greater workloads, a favourable economic climate and business expansions were all key factors behind decisions to hire more staff.

A better financial and economic environment, good company reputations, and advertising campaigns were all cited by Indian service providers as reasons for positive sentiment in February. Some panellists also noted efforts to cut operating costs and improve efficiency. Confidence regarding output over the next year rose to its highest level for four months as a result. Moreover, the latest reading was above the series trend. Companies in the Postage & Telecommunications sector were most optimistic about the future, followed by those in Hotels & Restaurants and Transport & Storage.

Input costs rose at a robust pace in February, although more slowly than January's sixteen-month peak. Respondents linked the increase to higher wages and greater raw material prices. Average input prices have now risen in each month since April 2009. All service areas covered by the survey recorded higher costs in February, with Hotels & Restaurants registering the fastest inflation.

Favourable demand conditions enabled service firms to raise their charges in February, as has been the case for the past three months. However, inflation eased since January to a more modest pace. Tariffs rose across four of the six services sub-sectors, but were unchanged in Financial Intermediation and 'Other' Services.

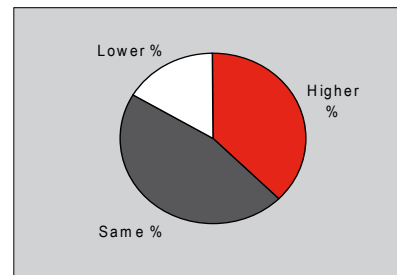
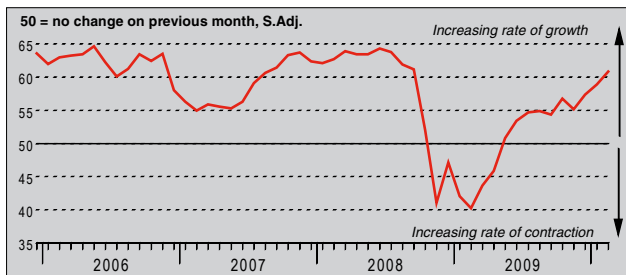
Business Activity Index



The survey uses a methodology identical to the HSBC India Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Indian services economy.

Business Activity Index

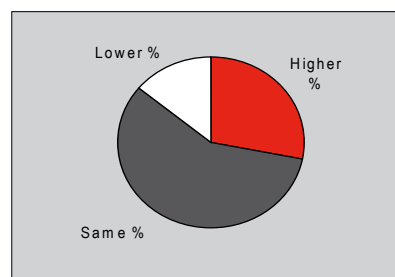
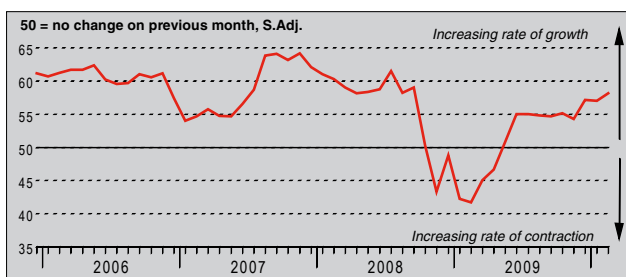
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Output in the Indian services economy expanded again in February. Furthermore, a third consecutive rise in the seasonally adjusted Business Activity Index brought it to a seventeen-month high, pointing to a sharp increase in total activity levels. Over 37% of panellists signalled a rise in activity since January, attributing this to a better economic climate and gains in new work. Hotels & Restaurants was the best performer during the latest survey period, although all sub-sectors posted growth.

New Business Index

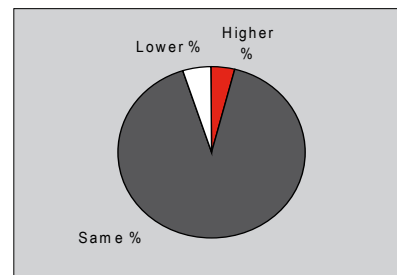
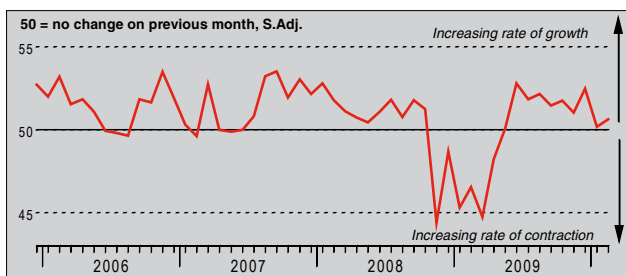
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Indian service providers engaged in marketing activities during February, as the financial and economic environment improved. Many firms also expanded their service ranges. Combined with already-established reputations for quality, this resulted in attracting more custom. Consequently, incoming new business grew at a substantial pace that was the most marked since September 2008. All six monitored services areas posted higher levels of new work on the month.

Outstanding Business Index

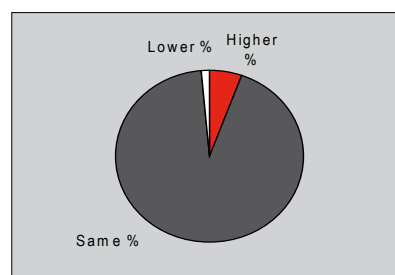
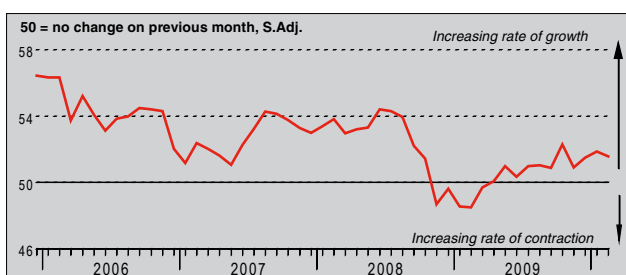
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The seasonally adjusted Outstanding Business Index posted close to the neutral mark of 50.0 in February, signalling another slight increase in backlogs at Indian service providers. Where work-in-hand built up, companies linked this to a combination of more new business and delays caused by clients. Meanwhile, reduced levels of outstanding work mainly resulted from efforts to clear backlogs, according to survey responses. Around 91% of the panel signalled no change in unfinished business on the month.

Employment Index

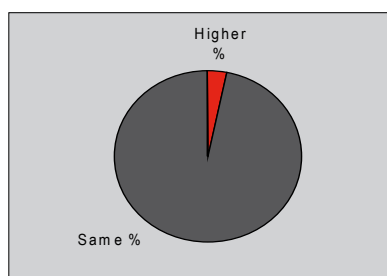
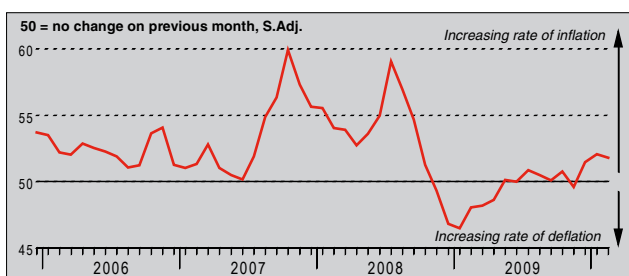
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Personnel growth at Indian service companies remained modest in February. Highlighting this, the seasonally adjusted Employment Index registered at a similar level to the preceding two survey periods. Even so, the latest reading remained above the average for the current eleven-month expansionary trend. Greater workloads, a better economic climate and company expansions were frequently mentioned by respondents. Job creation was recorded across all monitored sub-sectors.

Prices Charged Index

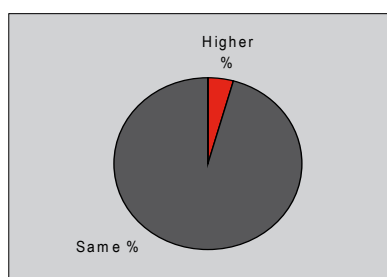
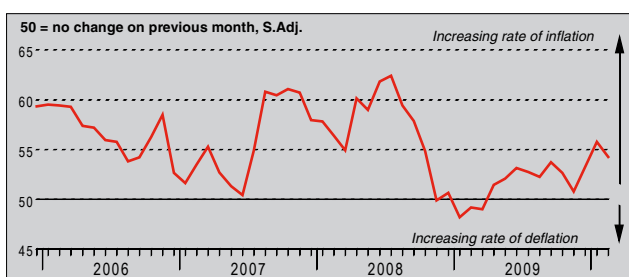
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Overall, Indian service providers continued to raise their charges in the second month of 2010. The latest increase was the third in succession, but slower than in January. Four of the six sub-sectors covered by the survey registered higher output prices, with Hotels & Restaurants and Postage & Telecommunications recording the fastest rates of inflation. Data showed that tariffs were unchanged in Financial Intermediation and 'Other' Services. Strong market demand and rising input costs were behind decisions to increase charges, according to panellists.

Input Prices Index

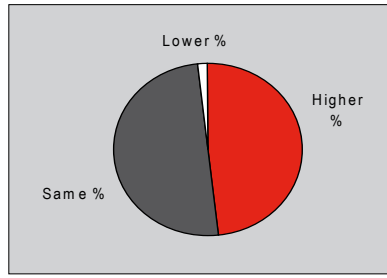
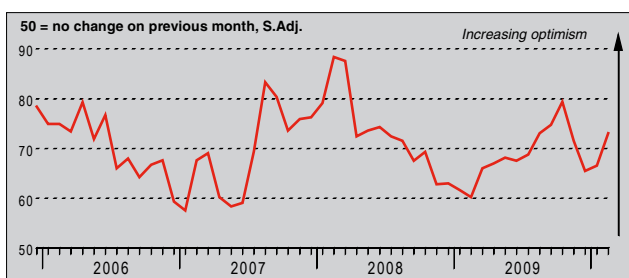
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The seasonally adjusted Input Prices Index slipped from January's sixteen-month peak in February, suggesting that inflationary pressures across India's services economy moderated during the latest survey period. Nevertheless, the index remained at a level consistent with a strong increase in average cost burdens. Input prices have risen continuously since April last year. Higher wages and raw material costs were principally blamed by firms for the latest increase.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?



Latest data showed that Indian service providers were generally optimistic about future activity levels in February. Exactly 48% of respondents expect output to grow over the coming twelve months, citing better financial and economic conditions, strong company reputations and marketing campaigns as key contributors to optimism. Several companies also mentioned efforts to cut operating costs and improve efficiency. In contrast, less than 2% of firms were pessimistic about the outlook for the activity.

Notes on the Data and Method of Presentation

The India Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants. Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies. The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled. The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

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